Pakistan Economy

28 July 2022

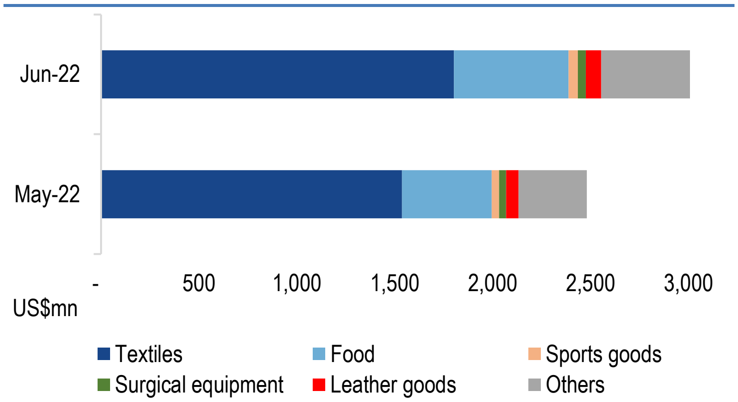
Balance of Payments

FY22 CAD clocks in at a 4-year high; mild respite ahead

Current account deficit (CAD) for Jun'22 swelled 59% MoM to USD2.3bn as imports hit a record high of USD7.04bn from oil demand, notwithstanding second highest monthly exports and seasonal rise in remittances from Eid. With this monthly print, Pakistan ended FY22 with a 4-year high CAD of USD17.4bn (4.6% of GDP) against USD2.82bn (0.8% of GDP) last year. In the absence of adequate foreign exchange liquidity, the disruption in goods imports along with administrative ban on non-essential items will trim CAD to a sizeable extent in the coming months. However, we currently stick to our base case estimate of USD12.6bn (3.0% of GDP) for FY23, where most contraction in import bill will be led by absence of TERF-related machinery and COVID-19 vaccinations in addition to the respite from palm oil imports.

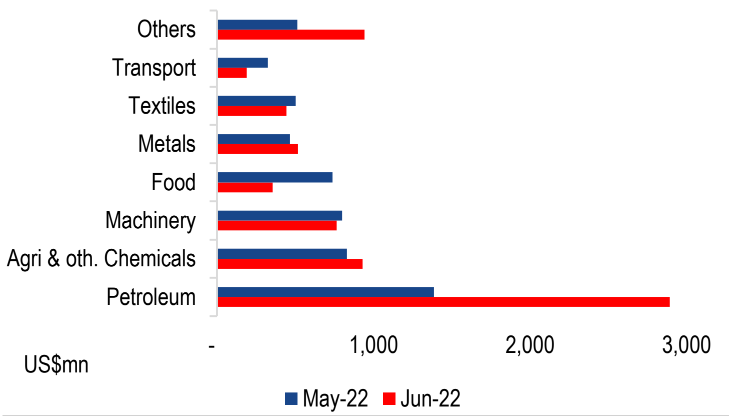
- Trade deficit hit an all-time high of c.US$3.9bn in Jun'22 owing to record imports of USD7.04bn, despite second highest monthly exports of USD3.1bn, up 26% MoM. Pakistan's energy requirements surged tremendously during Jun'22, where the country's monthly oil import bill hit the highest mark of USD2.9bn at an effective cost of USD116/bbl.
- Going forward, imports are likely to stay lower than FY22 monthly average of USD6.0bn owing to low machinery and vaccination imports, coupled with relatively lower international oil prices and crack spreads. Some savings will also likely emerge from Foods imports as international palm oil prices have come off by c.50% recently. All this is in addition to bottlenecks created by inadequacy of foreign exchange liquidity and administrative measures to curb non-essential imports. On the other hand, Textile exports have remained high owing to summer demand and adequate energy availability, but home textile demand growth may unlikely stay put in FY23.
- Remittances during Jun'22 increased 18% to US$2.8bn on account of seasonal rise from Eid-festivity-flows, managing to remain above FY22 monthly mean of US$2.6bn. Cumulatively, remittances have risen 6% YoY to US$31.2bn in FY22. We believe, remittance growth is likely to remain tepid as the normalized travel, opening up avenues of underground banking channels.

Textile and Food both added to 26% exports' rise in Jun'22



Source: State Bank of Pakistan

Stellar energy demand has rocketed import bill in Jun'22



Source: State Bank of Pakistan

IMF tranche needed to rescue Pakistan

Despite the USD2.3bn rollover from China in Jun'22, SBP Reserves have increased by a meagre USD420mn Jun'22 amid elevated imports keeping import cover around 1.5 months. However, IMF staff level agreement is through and the USD1.2bn tranche is subject to Board approval, which is likely by end-Aug'22. This will potentially arrest free-fall in USD:PKR parity, which has lost 19% since the start of Jun'22. We believe, Pakistan's attempts towards overcoming the foreign exchange liquidity constraints will be difficult, more specifically in terms of bond issuances in the current scheme of things. This has potentially garnered an approval for executing an express transaction to sell government stake in State-Owned Entities.

Continued on the next page…

Wajid Rizvi
wajid.rizvi@imsecurities.com.pk
+92-111-467-000 Ext 205

Rahul Hans
rahul.hans@imsecurities.com.pk
+92-111-467-000 Ext: 303

Pakistan's Current Account Deficit has swelled 517%YoY to USD17.4bn

USDmn	Jun 22	May 22	MoM	Jun 21	YoY	FY22	FY21	YoY
Current account	**(2,275)**	**(1,430)**	**59%**	**(1,637)**	**39%**	**(17,406)**	**(2,820)**	**517%**
Trade balance	(3,920)	(3,077)	27%	(3,810)	3%	(39,598)	(28,634)	38%
- Exports	3,118	2,482	26%	2,492	25%	32,450	25,639	27%
- Imports	7,038	5,559	27%	6,302	12%	72,048	54,273	33%
Services balance	(727)	(497)	46%	(293)	148%	(5,175)	(2,516)	106%
- Services Balance	646	498	30%	578	12%	6,968	5,945	17%
- Income Balance	1,373	995	38%	871	58%	12,143	8,461	44%
Balance on Primary Income	(474)	(348)	36%	(376)	26%	(5,286)	(4,400)	20%
Balance on Secondary Income	2,846	2,492	14%	2,842	0%	32,653	32,730	0%
- Workers' Remittances	2,761	2,333	18%	2,714	2%	31,238	29,450	6%
Capital account	18	4	350%	22	-18%	206	224	-8%
Financial account	2,780	206	1250%	3,037	-8%	11,085	8,768	26%
Foreign Direct Investment	237	107	121%	113	110%	1,620	1,648	-2%
Foreign Portfolio Investment	(69)	(125)	-45%	574	NA	(54)	2,774	NA
- In Pakistan	(69)	(125)	-45%	589	NA	(78)	2,762	NA
Other Investment	2,613	225	1061%	2,349	11%	9,518	4,346	119%
Net Acquisition of FA	(391)	520	NA	34	NA	(2,507)	(1,345)	86%
Net Incurrence of Liabilities	3,004	(295)	NA	2,315	30%	12,025	5,691	111%
Central Bank / Liab / Oth. Inv	-	-	NA	(1)	NA	(1)	(1,468)	-100%
Banks	189	35	440%	303	-38%	879	499	76%
Government	2,234	(654)	NA	2,015	11%	6,098	5,738	6%
- Loans disbursement	2,915	309	843%	2,097	39%	11,255	9,808	15%
- Amortization	(543)	(823)	-34%	(257)	111%	(8,333)	(5,855)	42%
- Other Sector	(138)	(140)	-1%	175	NA	3,176	1,785	78%
Other sector	581	324	79%	(2)	NA	2,276	922	147%
Allocation of SDRs	-	-	NA	-	NA	2,773	-	NA
Errors/Omission	**111**	**90**	23%	**196**	**-43%**	**(201)**	**(619)**	**-68%**
BOP	**634**	**(1,130)**	**NA**	**1,618**	**-61%**	**(6,316)**	**5,553**	**NA**

Source: SBP

We, Wajid Rizvi and Rahul Hans, certify that the views expressed in the report reflect our personal views about the subject securities. We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations made in this report. We further certify that we do not have any beneficial holding of the specific securities that we have recommendations on in this report.

Ratings Guide*	Criteria
Buy	Total return expectation of ≥ 15% or expected to outperform the KSE-100 index
Neutral	Total return expectation of > -5% or expected to match the return of KSE-100 index
Sell	Expected downside of more than 5% or expected to underperform the KSE-100 index

*Based on 12 month horizon unless stated otherwise in the report.

Valuation Methodology: We use multiple valuation methodologies in arriving at a Target Price including, but not limited to, Discounted Cash Flow (DCF), Dividend Discount Model (DDM) and relative multiples based valuations.

Risks: (i) Trade deficit continues to remain high, (ii) remittances through formal channels decline due to resumption of normal travel, (iii) delay in realizing expected capital flows, (iv) failure to resume IMF programme

Disclaimer : Intermarket Securities Limited has produced this report for private circulation only. The information, opinions, and estimates herein are not direct at, or intended for distribution to or use by, any person or entity in any jurisdiction where doing so would be contrary to law or regulation or which would subject Intermarket Securities Limited to any additional registration or licensing requirement within such jurisdiction. The information and statistical data herein have been obtained from sources we believe to be reliable where such information has not been independently verified and we make no representation or warranty as to its accuracy, completeness, and correctness. This report makes use of forward looking statements that are based on assumptions made and information currently available to us and those are subject to certain risks and uncertainties that could cause the actual results to differ materially. No part of the compensation of the author(s) of this report is related to the specific recommendations or views contained in this report.

This report is not a solicitation or any offer to buy or sell any of the securities mentioned herein. It is meant for information purposes only and does not take into account the particular investment objectives, financial situation or needs of individual recipients. Before acting on any information in this report, you should consider whether it is suitable for your particular circumstances and, if appropriate, seek professional advice. Neither Intermarket Securities Limited nor any of its affiliates or any other person associated with the company directly or indirectly accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or the information contained herein.

Subject to any applicable law and regulations, Intermarket Securities Limited, its affiliates or group companies or individuals connected with Intermarket Securities Limited directly or indirectly may have used the information contained herein before publication and may have positions in, or may from time to time purchase or sell or have a material interest in any of the securities mentioned or may currently or in future have or have had a relationship with, or may provide investment banking, capital markets and/or other services to, the entities mentioned herein, their advisors and/or any other connected parties.

RESEARCH DISCLOSURES

Third Party Research

This is third party research. It was prepared by Intermarket Securities Limited (IMS), with headquarters in Karachi, Pakistan. Intermarket Securities Limited (IMS) is authorized to engage in securities activities according to its domestic legislation. Intermarket Securities Limited (IMS) has sole control over the contents of this research report.

Intermarket Securities Limited (IMS) is the employer of the research analyst(s) responsible for the content of this report and research analysts preparing this report are resident outside the U.S. and are not associated persons of any U.S. regulated broker-dealer. The analyst whose name appears in this research report is not registered or qualified as a research analyst with the Financial Industry Regulatory Authority ("FINRA") and, therefore, may not be subject to applicable restrictions under FINRA Rules on communications with a subject company, public appearances and trading securities held by a research analyst account.

None of the materials provided in this report may be used, reproduced, or transmitted, in any form or by any means, electronic or mechanical, including recording or the use of any information storage and retrieval system, without written permission.

Disclaimers

Investing in any non-U.S. securities or related financial instruments (including ADRs) discussed in this report may present certain risks. The securities of non-U.S. issuers may not be registered with, or be subject to the regulations of, the U.S. Securities and Exchange Commission. Information on such non-U.S. securities or related financial instruments may be limited. Foreign companies may not be subject to audit and reporting standards and regulatory requirements comparable to those in effect within the United States. The value of any investment or income from any securities or related financial instruments discussed in this report denominated in a currency other than U.S. dollars is subject to exchange rate fluctuations that may have a positive or adverse effect on the value of or income from such securities or related financial instruments.

Frontier and Emerging Market laws and regulations governing investments in securities markets may not be sufficiently developed or may be subject to inconsistent or arbitrary interpretation or application. Frontier and Emerging Market securities are often not issued in physical form and registration of ownership may not be subject to a centralized system. Registration of ownership of certain types of securities may not be subject to standardized procedures and may even be effected on an ad hoc basis. The value of investments in Frontier and Emerging Market securities may also be affected by fluctuations in available currency rates and exchange control regulations. Not all of these or other risks associated with the relevant company, market or instrument which are the subject matter of the report are necessarily considered.

US Distribution

This Report is considered independent third-party research and was prepared by **Intermarket Securities Limited (FBD)**, with headquarters in **Pakistan**. The distribution of this Research is provided pursuant to the exemption under Rule 15a-6(a)(2) and is only intended for an audience of Major U.S. Institutional Investors (MUSIIs) as defined by Rule 15a-6(b)(4). This research is not a product of **StoneX Financial Inc.**. **Intermarket Securities Limited** has sole control over the contents of this research report. **StoneX Financial Inc.** does not exercise any control over the contents of, or the views expressed in, any research reports prepared by **Intermarket Securities Limited** and under Rule 15a-6(a)(3), any U.S. recipient of this research report wishing to effect any transaction to buy or sell securities or related financial instruments based on the information provided in this research report should do so only through **StoneX Financial Inc.** For any information, please contact Gene Turok. Under no circumstances should any U.S. recipient of this research report effect any transaction to buy or sell securities or related financial instruments through **Intermarket Securities Limited.**

Intermarket Securities Limited (IMS) is not registered as a broker-dealer in the United States and, therefore, is not subject to U.S. rules regarding the preparation of research reports and the independence of research analysts. This research report is provided for distribution to "major U.S. institutional investors" and other "U.S. institutional investors" in reliance on the exemption from registration provided by Rule 15a-6 of the U.S. Securities Exchange Act of 1934, as amended (the "Exchange Act").

Distribution outside US

This report is not intended for distribution to the public and may not be reproduced, redistributed or published, in whole or in part, for any purpose without the written permission of Tellimer. Tellimer shall accept no liability whatsoever for the actions of third parties in this respect. This report is for distribution only under such circumstances as may be permitted by applicable law.

This report may not be used to create any financial instruments or products or any indices. Neither Tellimer, nor its members, directors, representatives, or employees accept any liability for any direct or consequential loss or damage arising out of the use of all or any part of the information herein.

United Kingdom: Distributed by Exotix Partners LLP only to Eligible Counterparties or Professional Clients (as defined in the FCA Handbook). The information herein does not apply to, and should not be relied upon by, Retail Clients (as defined in the FCA Handbook); neither the FCA's protection rules nor compensation scheme may be applied.

UAE: Distributed in the Dubai International Financial Centre by Exotix Partners LLP (Dubai) which is regulated by the Dubai Financial Services Authority ("DFSA"). Material is intended only for persons who meet the criteria for Professional Clients under the Rules of the DFSA and no other person should act upon it.

Other distribution: The distribution of this report in other jurisdictions may be restricted by law and persons into whose possession this document comes should inform themselves about, and observe, any such restriction